Master

FEATURES

"The North Sea Bubble," The Economist, 8 March 1975.
"Seizing Arab Oil," by Miles Ignotus, Harper's, March 1975.
"How the Arabs Bluffed Us on Oil and How We Can Stop Them From Bluffing Us Again," by Leonard Mosley, New York, 17 February 1975.
"The Price of Oil: A Political Time Bomb," by Willy Linder, Swiss Review of World Affairs, February 1975.

Although the four recent articles in this packet are more stimulating than most media items addressed to one aspect or another of the OPEC problem, none is reflective of current USG policy and should not be passed to foreign contacts who might misconstrue them. Our purpose in sending them is primarily for background use by Station officers, to keep your attention focused on the oil/energy situation and to make you aware of some of the ideas now current for coping with it.

The article from The Economist is optimistic on the grounds that there is a huge oversupply of oil, that widespread nationalizations have obviated the need for the international distributing and marketing companies to cooperate with the producers' cartel, and that all the major consuming nations now have energy policies that will lead to a greater excess of supply over demand in the future. By contrast, the Harper's article, which might better be entitled "Seizing Saudi Oil," argues that the West has no alternative but to use force to capture the Saudi fields and thus break the cartel; the author suggests that the Soviets, Iranians and even the Saudis can be brought around to accept this action. Mosley contends that the West has caved in to OPEC's demands without really fighting them, but that in the upcoming negotiations we can count on the sheiks' development plans and their need to keep domestic radicals at bay to play into our hands to reach an acceptable compromise solution. Finally, Linder's article concentrates on the problems of the mounting indebtedness of the consuming countries and the recycling phenomenon, both of which lie at the heart of what Ottar Emminger of the West German Bundesbank characterizes as a time bomb that has yet to be defused.

We hope Station officers will find these articles of interest and call our attention to comparable items in foreign publications of quality to which you have access.

25 March 1975

The Economist

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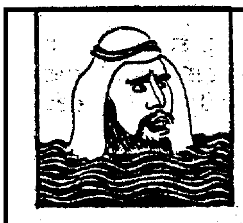

The North Sea bubble

Over a year ago *The Economist* unfashionably suggested that there was a "coming glut of energy". Well it's here, earlier than we expected

History is being swayed by the increasing capability of important groups to cod each other and themselves that they are observing the precise reverse of what is actually happening. In oil what is happening is that the world is now trying to produce about 20 per cent more than people are willing to buy while the price of oil is around $10 a barrel, and that some glut of present productive capacity would probably persist even if the price dropped to $3–$4 a barrel. Medium-term energy policies all over the world are now geared to making this present glut enormously greater with every year that passes.

Under one of these policies the world's governments may—as a diplomatic ploy, perhaps rightly—sign Mr Henry Kissinger's piece of paper pretending that all this generation's successors in business and government will promise to pay through the 1980s perhaps $7 a barrel, maybe index-linked, for a commodity which costs 10 cents a barrel to produce in much of the Middle East and whose marginal operating costs (once rigs are in place, and it costs money to stop pipelines) are sometimes barely over two cents a barrel. If there is an index-linked floor price of $7 a barrel, then it is probable that more than half of the productive capacity of primary energy either already existing or now planned for the early 1980s will have to be held or edged out of production; indeed Mr Kissinger's objective in talking about $7 a barrel is precisely to create such a glut.

People can believe if they wish that the capacity declared redundant will not then be the expensive (and rising-marginal-cost) capacity like Alaska and the North Sea plus the high wage coal mines of Britain and America. People can believe if they wish that countries like Japan will be bound by a piece of paper saying that they must buy oil at $7 a barrel when marginal producers will be offering it at a price based on costs less than one-seventieth of that, and that Japan's competitors will then allow their own energy costs to stay up to 70 times more expensive than hers. People will believe what they want to believe, including dear delusions.

In the rush to oil glut in the last 18 months there have been four main self-deluders (oil companies, governments of producing and consuming countries, journalists), just as there were four in the exchange-rate farce that preceded it (central banks, governments with strong and weak currencies, journalists). Both these stories began with the breakdown of a longstanding, because restrainedly canny, restrictive practice (oil companies' rigging of world oil prices against the Arabs before Yom Kippur, central banks' fixed exchange rates before 1971). In both the breakdown led initially to a wildly unsustainable attempt at more extravagant market-rigging the other way (Opec, Smithsonian agreement), so that ordinary market forces swung into reaction. While they were thus in swing, governments who always believe they can repeal the laws of supply and demand were holding consecutive meetings in lush hotels (Opec summits, finance ministers' conferences), and journalists always wrote as if something important was happening there. But anybody who stayed home and based his guesses on any reasonable calculation of elasticities of substitution and supply could see that exchange rates would float again and could guess correctly what would happen first to demand for oil, then to stocks, then to supply, and next to prices.

The old cartel

Before Yom Kippur of 1973 the major international oil companies rigged world oil prices in a way which ensured that their very cheap Middle East oil did not undercut their sometimes 50-times-more-expensive oil from existing and intended ventures in uneconomic areas like North America, the Arctic, the North Sea. This market-rigging was probably illegal under American and other anti-trust laws, but was thought worth allowing to "keep us out of the power of the Arabs".

The old cartel was (a) hurting all consumers to the benefit of producers in the sense that it kept selling prices well above marginal cost, but (b) kept most of the gravy from the most efficient producers (Arabs) so as to finance the digging of oil from uneconomic areas on which these companies got both a producer's and distributor's profit. At the same time the companies (c) cannily did not push selling prices so high as to induce substitution or indeed even (d) so high as to maximise monopoly profits (leaving grateful western governments room to put on heavy petrol taxes in a still rising market).

Many poor primary producers would give their eye-teeth if big foreign capitalists would kindly arrange a semi-monopolistic distribution network for their products in the west, down to tied petrol filling stations. During the 1960s and early 1970s a lot of us believed that the Arabs could eventually seize advantage of this, and double their revenue to about an index-linked $4 per barrel by diverting to themselves the monopoly profits that were then going to (a) western oil companies and the support of their ventures in uneconomic western areas, (b) western governments who were taking such a large tax revenue from oil. *The Economist* was much attacked in 1967 for pointing out that it was only a matter of time before the Middle East producers with small populations and small dependence on oil would bring the oil companies and Europe's consumers to their knees. The big question was always whether the Arabs, when the moment came to strike the oil companies down, would be too greedy, and stimulate over-supply against themselves.

The boycott that wasn't

When they quintupled the oil price under the emotion of the Yom Kippur war, it was clear that the Arabs had over-egged their pudding. Why should the new country cartel (which controlled local production only) be likely to be able to maintain for long a far bigger monopoly profit than the old company cartel (which controlled worldwide production, distribution, and possessed the ear of rich countries' governments), unless one assumed that the old companies were shrinking violets, and that the newcomers could keep unbelievably tight the control of supplies? Reports of that first winter's "boycott" were delusive. Hawk-like old oil companies were intent on saying "see how effectively the Arabs are strangling the west, America must invade them", while the dove-like old oil companies were intent on saying "see how effectively the Arabs can strangle the west, so let's ditch Israel". *The Economist* at this time adopted the simple expedient of checking the insurance coverage at Lloyd's of oil shipments from the Gulf, and found that the boycott was not being enforced as fully as both sides' propaganda alleged. Does anybody now deny this? In the peak boycott month of January, 1974, shipments of oil from the Middle East were 5 per cent higher than in the free market month of January, 1975. All through the early months after the price hoist, all through the period when the world was supposed to be being strangled by the boycott, the Arabs were shipping out more oil than customers were ever likely to want to buy at the new price.

That winter some normally shrewd traders bought marginal free market oil at $18 a barrel, although any counter at Lloyd's could see that before it got home ample oil would be available at little more than half that price. Nearly all big countries discussed the possibility of petrol rationing, and some introduced it; as *The Economist* was pilloried for forecasting, all found that the flood of supplies made rationing ridiculous within a week. All through the first half of 1974 some serious commentators were writing that oil would become steadily scarcer and more expensive for the rest of our lives, although anybody who counted how many Gulf supertankers made five could tell that oil was heading for its biggest instant glut.

By June the glut was obvious, as tankers were told to go slow across the oceans and act as great floating storage tanks. The big oil companies made embarrassingly large stock profits in the first half of 1974 because of the quintupling in price, but now recognised uncomfortably that they might suffer huge stock losses on record inventories held at a time when demand was falling fast. Since mid-1974 some oil companies have front-stage joined with the oil countries in urging everybody to believe that prices will not come down, while back-stage they have frantically cut their purchases so as not to be holding quite such large stocks when prices actually do.

The cuts in production have not been dictated by Arab solidarity, but by the companies' sensible commercial decision not to buy from the most expensive Opec suppliers. Libya and Abu Dhabi (who were unlucky enough to enjoy price extras for their low-sulphur crude) have seen their sales cut by more than half, while Saudi Arabia was until recently selling more than before Yom Kippur. The one-third cut in Kuwait's production is partly voluntary, because it suffers from what can be called the Aberdeen disease; in a country the size of Yorkshire, with an immigrant majority that is distrusted by the ruling native minority, nationalists in the Kuwait assembly feel they might do better to keep their scarce oil in the ground. Some nationalists in Scotland and Norway have the same delusion, which is very unwise for this period of mounting energy glut.

Those who are whistling to keep prices up have two arguments. One is that oil cartels have stuck together well in the past, and that Opec's successes have tightened it. Actually, Opec's nationalisations have broken the old cartel up. In place of the experienced ring of the seven sisters (the big oil companies who once controlled nearly all production and distribution), there are now a dozen inexperienced nationalised companies trying to sell their oil in a market of surging surplus, confronted by the old oil companies, who still control distribution and whose sole incentive in the Opec area should soon be to shop around for the best deal they can get. The cartel can only last if the western oil companies find some new reason for wanting to keep oil prices up.

Secondly, Opec's optimists say that the drop in demand is caused by world recession. But recovery from recession will coincide with the beginnings of new oil coming on flow. The present market situation, to repeat, is that the operators of existing capacity want to produce 20 per cent more oil than the world wants at present prices to buy; while, for the first time in any slump for anything, every country has an "energy policy" designed to make this overexpansion of supply far more overexpanded still. That is a market in which to be a buyer (like Japan) could be very heaven and in which a potential seller like Britain should not buoy up its hopes on a North Sea bubble.

The diplomats of the world rightly look beyond this price-induced glut; and Mr Kissinger and an army of thousands in the west and the Middle East are now sensibly looking for trading and price arrangements that may prevent the next war from creating an oil-price nonsense again. But that doesn't change the economic fact of the matter. An oil-price nonsense it is.

Harper's

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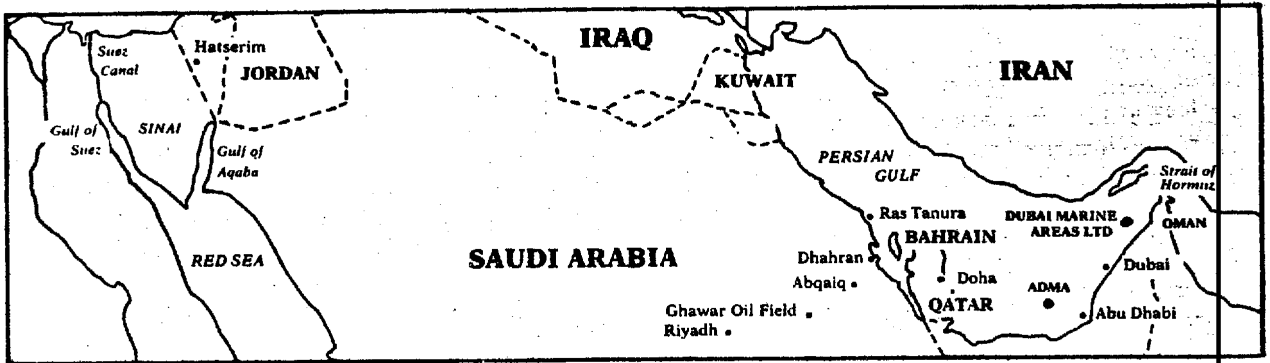
SEIZING ARAB OIL



How the U.S. can break the oil cartel's stranglehold on the world

by Miles Ignotus

Miles Ignotus is the pseudonym of a Washington-based professor and defense consultant with intimate links to high-level U.S. policy makers.

After more than a year of extraordinary passivity, the United States and the other oil-consuming nations of the West have slowly—very slowly—begun debating ways to break the oil cartel's power. So far, they have pursued a futile policy of appeasement. Instead of mounting an economic counteroffensive against the price-rigging of the Organization of Petroleum Exporting Countries (OPEC), the victims have talked only of accommodation. Instead of a forcible reaction to protect national interests—vital national interests—they have talked about cooperation. In response, the oil cartel has predictably raised prices again, twice.

Meanwhile, economic growth in formerly developing countries, from Brazil to Taiwan, has stopped. India and the rest of the hopelessly poor have been driven into even deeper poverty. Virtually every industrialized oil importer is in deep recession, with its threat of social instability and, in turn, political disarray. Although the price of oil is not the sole cause of these troubles, it is by far the single major factor propelling inflation, unbalancing the balance of payments, and disrupting capital markets. The policy of appeasement has failed, again.

In the 1930s the craven men of Munich displayed not only an almost complacent defeatism, but also a constant need to justify German demands. Similarly, the modern appeasers have constantly tried to justify Arab oil extortion. When OPEC members began accumulating billions of dollars in unearned reserves, we were told that this was merely fair compensation for past "exploitation"—as if men who for years had been receiving huge royalties (for a product they had neither made nor found) could be said to have been exploited. When OPEC prices brought worldwide economic growth to an end, it was said that growth had been too rapid in any case—as if we had any other way to relieve poverty, and as if the military dictators and megalomaniac kings of OPEC had been chosen to oversee the ecological balance of the planet.

Many Western intellectuals have put forward an even sillier equation: OPEC = Third World = Good. To be sure, the oil cartel is bringing about a massive redistribution of the world's wealth, but it is a rather peculiar redistribution: Indian peasants buying kerosene are subsidizing the super-rich, while Americans are buying smaller cars because sheiks want bigger jets.

Just as men persisted in seeing moderation in Hitler's policies when there was none, so we have persisted in seeing painless solutions to the problem of OPEC. The first of these was private "recycling." The bankers said that the massive transfer of funds to OPEC, which most of the recipients could not possibly spend, would not drain the monetary system of its liquidity, nor would it destroy the equilibrium on which the world economy depends. The bankers assured us they would take care of the problem: surplus OPEC funds would flow into their banks as deposits, and the bankers would re-lend the money to the oil consumers, who would pay OPEC, which would deposit the money, thus closing the circle.

All this depended on the willingness of government bank regulators to overlook private bank practices that were essentially unsound—borrowing from the few to lend to the many, and borrowing short-term money to lend it long. And so the regulators overlooked, and the banks recycled, until the banking failures began. By then some of the world's largest banks had shouldered commitments (notably loans to Italy and Japan) that may yet destroy them.

The economists, with their trained inability to understand the real world, had an even simpler solution. Paper money (dollars, marks, etcetera) would flow to OPEC, whose members would have to spend it, lend it, or bury it in the sand. If they spent it, we would get the oil and pay for it with our exports, a workable exchange even if at unfair prices. If they lent the paper money we would borrow it and thereby get the oil in exchange for bonds and deposits, the sophisticated IOUs of modern finance. If they buried it in the sand, we would get the oil, and they would get slowly rotting and quickly depreciating paper.

Missing from this classroom version of the world were institutions such as the gold and Eurodollar markets, where vast infusions of Arab money could destabilize small currencies overnight, and undermine the credibility of even the largest. Above all, the economists overlooked a fourth alternative: Arabs who did not want to spend the money *or* lend it *or* bury it in the sand could simply avoid earning it—by reducing the output of oil. At present, the world is being denied more than 3 million barrels of oil per day, mainly owing to production cuts in Kuwait and Libya.

As to the political effects of all this, even the most informed pessimists may be too optimistic. For example, Italy's endemic unemployment of 5 to 7 percent represents the men who have failed to leave the rural South and are trapped in its decaying economy. Socially and politically, Italy could survive such unemployment for centuries. But when inflated oil prices increased Italy's unemployment, the extra percentage points forecast an ominous future. Behind those numbers are men who did have the initiative to seek work in the North, and who now have the initiative to destroy the fragile institutions of the Italian republic.

From bad to worse

THOSE WHO MAKE IT their business to understate the depredations of OPEC invariably point out that Italy and the rest were unstable anyway; if one speaks of global economic consequences, they reply that the poor were starving already, and inflation did not begin with oil. All these arguments are valid, and they are all irrelevant. What matters is that OPEC's price-rigging has made all these troubles—from the malaise of Italian politics to the muddle of world economics—far graver than they were before October 1973. This alone is important.

The real enigma is the behavior of the poor countries that have no oil. After all, the tax that OPEC has imposed on all oil-consumers is hideously regressive and the incidence of suffering very different: Indian peasants are paying exactly as much for their oil as Swiss bankers are, and the man who will no longer be able to afford fertilizer and fuel to grow food for his family is suffering far more than the American who can no longer afford to visit Yellowstone in his eight-cylinder car. And yet, leaders of the poor countries have praised OPEC and given it their support at the United Nations.

There are two very different explanations for this anomaly. The first is that the actions of OPEC are only a prelude to a much broader rearrangement of the world economy. This vision is embodied in the proposals for a "new economic world order," recently blessed at the U.N. General Assembly by the usual automatic majority. Schemes are now circulating according to which raw materials produced by the poor would be indexed at 400 percent of present prices (almost matching that of oil), while all industrial goods would be indexed at present prices. In short, the high price of oil would be balanced by equally high prices for other raw materials produced by poor countries. Only industrialized nations would continue to pay high prices while selling their own products cheaply.

Wheat and other cereals have been excluded from the magic circle, since they are exported primarily by rich, white countries. But this is not enough to make the scheme workable, let alone fair. If not the poorest of the poor, India is certainly the most important, and it is not primarily a raw-material exporter. No conceivable way could be found to make Indian tea and Bengali jute sufficiently expensive to balance the price of oil. In reality, the distribution of raw materials simply does not correspond with the distribution of poverty: rich Canada has a great deal, and Bangladesh has virtually none. Hence, no workable or just scheme of global redistribution can be hinged on raw-material cartels, and the argument that OPEC is merely leading the way is false, mere propaganda.

The second explanation suggests why the leaders of the poor should have acquiesced in peddling the first explanation, hollow as it is. The truth is that the voices praising OPEC do not belong to the poor but to those who control their lives—narrow, self-appointed ruling groups (elections have become a rarity in Africa and Asia) fond of shiny black cars and numbered Swiss accounts. Westernizing, yet fiercely anti-Western, these dictatorial elites see in OPEC a force that can humiliate the West, and perhaps even destroy its prosperity. Those who eat three ample meals a day in Dacca or Bamako instruct their nephews serving as delegates to the U.N. to applaud when the Kuwaitis say that the price of oil is low, and that the recent 500 percent increase was only fair. It is doubtful whether those who are starving because of the shortage of oil-based fertilizer have been asked for their opinions. Their rulers value the license of unfettered sovereignty and anti-Westernism far more than mere food for hungry people.

With the oil-price crisis compounding every human misery, the time for action has surely come. For in the end it does not matter whether the latest solution, Dr. Kissinger's governmental

"The scenario: an Arab embargo or supply cut, an atmosphere or crisis, probably in the aftermath of a short but bloody war. Then we go in."

"recycling," would actually work or not. If the OPEC countries lend back a portion of their huge unearned revenues to those they deem credit-worthy, such as the United States and Western Germany, and if the countries so privileged re-lend funds to other countries which are denied direct loans, such as Italy, the only result would be a massive and ruinous transfer of capital* and, of course, of power.

IF WE DO MAKE Dr. Kissinger's recycling scheme work, we will have created the engine of our own impoverishment. Oil payments to the Arab members of OPEC amounted to $8.5 billion in 1972, and are projected at $65.4 billion for 1975, and $101 billion for 1980—an increase of just under 200 percent in eight years. And the transfers to OPEC are not just a matter of paper money. Right now, the Kuwaitis could easily buy British Leyland Motors, the largest industrial combine in Britain. Built up through the work of tens of thousands of English workers over a period of more than seventy years, BLM would then be acquired by a single family in Kuwait with only six days' worth of oil production.

Why should we countenance the transfer of hundreds of billions of dollars' worth of real estate and industry to the ownership of reverse colonialists? In the West such property may be owned by the rich, but at least our rich are taxed and regulated. And even the top 5 percent of our home-grown rich cannot be compared to the handful of families that control such a large portion of OPEC revenues.

If at last we resolve that OPEC must be broken, the question remains: how? The nonviolent methods have been discussed so much that mere mention suffices:

☐ *Financial denial:* Western nations in solidarity refuse OPEC deposits unless they are long-term, evenly distributed, and at low interest —or possibly under any circumstances.

☐ *Ownership denial:* OPEC money is forced to remain paper money since no transfer of real assets is allowed.

☐ *Market manipulation:* Conservation and substitution are used to cut the demand for oil, thus depressing prices once a surplus develops.

Some of these nonviolent strategies are more plausible than others, but all would in fact be utterly ineffectual. As long as OPEC controls oil supply, it will prevail: it can deny supply in the face of financial denial; withhold supply so long as purchases of Western real estate and industry are forbidden; and cut supply pro rata to offset any contrived decline in demand. As the Saudi oil minister has already explained: "If you cut demand hoping to depress prices, we will cut supply even more so as to raise prices still further." In theory again, we could cut demand to the point where the market share of OPEC producers who do need the cash is affected. To do this we must cut demand by more than the low-population, cash-surplus OPEC producers can cut supply; by the time that demand level is reached, half our industry will be without fuel, and half our work force unemployed. Nor is there any hope that enough "new" oil will be found to solve the supply problem. The finds in the North Sea, Alaska, offshore Vietnam, offshore China, and the promising structures being explored elsewhere are all useful. But their combined output—when fully developed—will not amount to half of Saudi Arabia's. And this assumes high rates of output: when it comes to reserves, all the oil found worldwide since 1965 is equivalent to a tenth of the Saudi reserves already fully proven. Even if vast new oil fields were found, it would still take five to seven years to bring them into production—and there is absolutely no reason to expect major new discoveries.

The fallacy of all the nonviolent strategies is fundamental: to break OPEC by economic means, we must break its power to control supply—and this power can always defeat the strategies first. Moreover, there are some minor practical difficulties. For the financial strategy: the Swiss would never play, but would instead launder all the money that OPEC would ever want to deposit. For the ownership-denial strategy: Japan and the gold market would never play, while OPEC investors might just want to buy all the gold in the world, plus every Japanese factory and scenic inn. Finally, for the market-manipulation strategy: for every producer willing to sell a few cargoes under the table, there is likely to be a consumer willing to buy two, in order to keep the factories running and the workers off the streets.

The use of war

THERE REMAINS ONLY FORCE. The only feasible countervailing power to OPEC's control of oil is power itself—military power. But the lack of any other alternative does not, of course, mean that the use of force is ipso facto feasible. First, the essential question: could we start a war on OPEC just because the price of oil is too high? Surely the answer is no. And it would probably remain so even if OPEC raises prices again, citing the rising prices of caviar, Cadillacs, and fighter-bombers.

That, however, is not the end of the story. Fortunately for us, while all members of OPEC are extortionists, some (the Arabs), are also

* Internal World Bank estimates project the unexpended reserves of Saudi Arabia, the United Arab Emirates, Kuwait, Libya, and Qatar at $453 billion by 1980 and over $1,000 billion by 1985.

blackmailers. Sooner or later, their demands on Israel will become excessive; the Israelis will then refuse to concede further territory without reciprocal concessions. Then there will be war, and then, at whatever cost, the Israelis will prevail again. The last Arab-Israeli war ended with the Arab armies in disarray and both Cairo and Damascus in danger. The next war is likely to end with the same result, but sooner. This time, the massive surprise of October 1973 cannot possibly be repeated, and the contest in the air will no longer feature a pre-Vietnam Israeli air force with dumb bombs and few electronic countermeasures facing post-Vietnam Arab air defenses. The Arabs may have more and better missiles, but the Israelis now have smart bombs. With Israeli fighter-bombers now making one pass instead of five or six to hit each target, Arab air defenses would have to improve by 500 to 600 percent to retain their power undiminished. Eventually the Russians will no doubt supply better guns and better missiles, but five-fold improvements would require totally new technologies, and many years to mature. Meantime, it is back to 1967 for the Israeli air force. The Arabs know this, otherwise Syrians would have opened fire in 1974. But the Israelis know this also, and they will resist Arab demands: hence war, and an embargo.

When the price problem did not exist, and Persian Gulf crude was changing hands at $1.80 per barrel or less, an Arab oil embargo was a danger to be feared, and Israel was pressured to make concessions. Now an embargo is no longer a threat but an opportunity. Some, captive to the old politics, fail to make the connection, repeating endlessly that war in the Middle East must be averted at all costs, for if Israel loses, then catastrophe, and if Israel wins, an embargo follows. There they stop. Their advice, of course, is to comply with blackmail by blackmailing Israel into further concessions. But if this dishonorable deed is done, the result will only ensure the continuation of supply at present prices, and the damage these prices are causing is altogether more fundamental than any short-term embargo could inflict. This, then, is the scenario: an Arab embargo or supply cut, an atmosphere of crisis, most probably in the aftermath of a short but bloody war. Then we go in.

The first question is where. The goal is not just to seize some oil (say, in accessible Nigeria or Venezuela) but to break OPEC. Thus force must be used selectively to occupy large and concentrated oil reserves, which can be produced rapidly in order to end the artificial scarcity of oil and thus cut the price. Faced with armed consumers occupying vast oil fields whose full output can eventually bring the price down to 50 cents per barrel, most of the producers would see virtue in agreeing to a price four or five times as high, but still six times lower than present prices. This being the ultimate goal, there is only one feasible target: Saudi Arabia.

Oddly enough, some have suggested that Libya would make an ideal target. It is true that Libya is a good deal more open to attack, but in fact an invasion of Libya would be worse than useless. Far from having enough oil to make OPEC vulnerable to market pressures, Libya's oil would not even suffice to cover current needs. Hence the rest of OPEC could defeat any invasion of Libya by simply cutting off oil production for as long as it would take to force a withdrawal.

With roughly 200 billion barrels of published, proven reserves (they could be substantially higher), Saudi oil fields are now being worked at a rate of just over 8.5 million barrels a day, for an annual output of just over 3 billion barrels. In other words, at present rates of production Saudi oil would last for more than sixty years. By contrast, oil fields in most other parts of the world are developed much faster, with output/reserve ratios of 1:10, or at most 1:20. Producing Saudi oil fields at Texan rates would mean producing almost 55 million barrels of oil a day, enough to supply current worldwide needs almost twice over. It would take huge investments and several years to install the required capacity, but in order to break OPEC we need not go to such heroic lengths. It would suffice to increase output by a little, and then by a little more, each time eroding the remaining market shares, until a compromise is reached. If none is forthcoming, then the time will have come for large output increases to flood the market.

In short, if the use of military force is to be limited and therefore efficient, the real leverage must come from market pressures, and only the Saudi oil fields can provide the means. Fortunately, those fields are not only prolific but are also concentrated in a small area, a fraction of Saudi territory. Even better, the areas involved are scarcely settled except for the oil workers, some 20,000 in all, American technicians included. If Vietnam was full of trees and brave men, and the national interest was almost invisible, here there are no trees, very few men and a clear objective. There could be serious risks in the operation, but at least there would be no sense of futility with 200 billion barrels of oil underfoot—oil that would restore jobs to the unemployed and supply the wherewithal for a gradual program of substitution.

Now for the problems. There are many, starting with the pure logistics. For one thing, the region is remote and not open to the oceans. Except for staging and refueling points in Israel—itself almost 1,000 miles away (Hatserim to Dhahran)—there would be no friendly bases within easy reach. The Israelis owe a great deal to the United States, and it is inconceivable that they would deny airfield facilities, even if the operation entailed serious risks for them. It would have to be a long-distance operation and a large one. The Saudi forces that could resist an occupation are small and deficient in training. For all the best efforts of our own advisers and weapons salesmen, the Saudis do not yet have a serious military force: 36,000 soldiers scattered over a vast land. But the scale of the operation is set by the nature of the target itself: some hundreds of wellheads, dozens of miles of pipeline, several loading jetties, and much else besides will have to be secured, reactivated, and thereafter patrolled. Moreover, to deter sabotage and counterintervention (of which more below), it will be necessary to have a sizable force, diversified in composition.

The first wave should include the combat echelons of one Marine division: 14,000 men, with one or two battalions amphibious-landed and the rest simply to be unloaded from aboard ship. The Marines could be gathered quietly in the Pacific, but by the time their shipping sailed past Singapore across the Straits of Malacca, the threat would become pretty obvious, even to the *New York Times.* At twenty knots, the passage from the straits to the gulf would take almost a week, too long. Though some resistance and sabotage are unavoidable, the less of it the better. An effort must therefore be made to minimize warning time.

Hence the need for a preliminary airlift wave: the combat echelons of the 82nd Airborne Division, sent with its nine infantry battalions but without its too-heavy armor or armored cavalry battalion. Instead, the division should be equipped with two additional battalions of helicopter-borne "air cavalry" detached from other divisions, as well as extra antitank missiles and many Jeeps fitted with recoil-less rifles. If the Marines of the first wave are due to arrive in and around Dhahran on the shores of the gulf at day D, and if warning is given by their transit at Singapore by D-7, the 82nd Airborne must arrive on D-3, to restore surprise by arriving three days before the Marines are expected. Flown out of the U.S. without fanfare, briefly staged and refueled in Israel, the 82nd's heavy C-5 and C-141 jet transports would fly straight across Saudi Arabia to Dhahran, escorted all the way by air-refueled Phantom fighters, also based on Israeli fields or aboard carriers in the Arabian Sea. One or two paratroop battalions would jump to seize the Dhahran airfield, and to take up positions around the U.S. residents' housing a few miles away. Once the airfield was secured, the paratroopers would signal other aircraft waiting overhead to fly in the rest of the troops. As the troops landed and began to spread out, the empty aircraft would be reloaded with the families of American and other foreign oil technicians who would be evacuated to Israel and the U.S.

Immediate targets of the advance force would include the Ras Tanura jetties as well as storage tanks: it would be ridiculous to have to airlift oil into Saudi Arabia. The air cavalry battalions, powerful and highly mobile, could secure some of the installations of the Ghawar oil field (the largest by far), which is seventy miles at its northern extremity from Dhahran. They could also seize the entire nearby Abqaiq field.

The Marines would arrive seventy-two hours later to consolidate the base and expand the coverage. Having vehicles including some armor, they would complete the occupation of Ghawar and other Saudi oil fields. Having small boats and more helicopters, they could also occupy the non-Saudi offshore oil fields near Doha, Adma, and Dubai, as well as patrol to the north toward oil-rich Kuwait, and dangerous Iraq beyond it. Very soon after the Marines landed, on D+1 at most, a second Army division would arrive, the First Cavalry, with its infantry, armor, and helicopter-cavalry. This too would come by air, staged by way of Israel, except for its battle tanks, for which air transport is inefficient. The tanks would be loaded aboard fast landing ships and fast freighters, and offloaded with heavy derricks. Finally, on D+3 or D+4, the expedition would be reinforced with more Marines, the combat echelons of a second division. This would arrive entirely logistic-loaded, for an "administrative" landing: no storming of beaches here.

By then the occupation force would have its own air power. Some fighters would be flown into Dhahran from Israel as soon as the airfield was seized; the two Marine divisions would come with their organic air "wings," no mean force: eight Phantom fighter squadrons, two reconnaissance squadrons, and another eight "attack" squadrons, with light and not-so-light bombers. Not that any bombing is planned; the mission is to deter others. At this point, the basic force would be in place, with resupply coming by air or by ship, depending on bulk, weight, and urgency. With some 40,000 men by now mobile on the ground and in the air, the physical occupation of all the major oil fields on- and off-shore would be complete.

Tactics

SO MUCH FOR LOGISTICS. Now the strategy and tactics, starting with "industrial" tactics. Much has been said about the dangers of preemptive sabotage. Alarmists have conjured up visions of oil fields burning till the year 2000. Not so. The world's supply of oil field firefighting talent is to be found in Texas. Given all the other resources available in the U.S., the chances are that fire and damage could be handled quickly. Assuming fairly extensive but unsystematic sabotage, preinvasion output levels could be resumed in one to two months so long as certain essential items (e.g., segments of scarce large-diameter pipe) are sea-lifted with the first Marine convoys and plenty of skilled manpower is flown in.

The difference between the operating cost of the Saudi oil barrel and the OPEC price is the difference between 10 to 30 cents and $11. Multiplied by the output of more than 8.5 million barrels a day, this means that one month's production could pay for $2.5 billion worth of skilled manpower and equipment: enough to repair or replace every damaged wellhead, every interrupted feeder line, and every sabotaged gas separator, as well as to replace as much large-diameter pipe as could possibly be needed.

Of course, if the Saudis did to their oil fields what the departing Germans did to the Romanian oil fields at Ploeşti in August 1944, it could take longer to restore full production and begin adding to it. It took the Russians almost three months to restore production at Ploeşti. Still, a well-organized rehabilitation task force would be better prepared than the chaotic hordes of Marshal Rodion Malinovsky, and the Saudis are not Germans. Even if they were, they would not have enough time to do a thorough job. In making advance preparations for sabotage, the Saudis face severe limits: there are too many underpaid and radical non-Saudi oil workers; if *plastique* charges were pre-set to demolish oil facilities, they would be apt to go off whether there was an invasion or not.

As for postinvasion sabotage, if the oil workers cannot be trusted to work reliably—at higher postinvasion wages—they should be replaced. No labor force is more mobile: from Texas and from Europe, all the labor that could possibly be needed would come, at the right pay. The local oil workers know this, and they also know that if they are expelled from Saudi fields, their next available employer is going to be hundreds of miles to the north, at much lower Iraqi wages.

Initially, squads will patrol the installations in constant crisscross patterns, covering every wellhead every few minutes, protecting repair squads from those who might try to stop them. Helicopter teams will circle overhead, ready to descend at the first hint of trouble. Given the vast stretches of open desert around the heavily guarded oil fields, infiltration will be utterly impossible during the day and perhaps no less so at night, since the clear desert sky allows almost perfect visibility with modern night-vision devices. Pipelines, highly vulnerable in theory, can be kept under total surveillance by helicopters and small ground-support teams. The Israeli experience has proven quite conclusively that guerrilla tactics are simply ineffectual in desert areas, there being no ground cover for concealment. The whole of the Negev and Sinai are secured by a few Bedouin guards and a handful of soldiers; once consolidated, the oil fields can be reliably secured by a handful of battalions, a fraction of the total force.

Even discounting the effect of sabotage, there would still be a problem of short-term oil supply. Aside from the temporary cutoff in Saudi production that must be expected between D+7 and D+60 (or at the very most D+90) it is virtually certain that radical Arab oil producers (Iraq, Libya, possibly Algeria) would cut off production in sympathy. The shortfall could range from 3.5 million barrels a day to 4.5 million. It is probable that nonradical Arab oil producers would partially deny oil to the U.S. and other consumer countries that did not dissociate themselves from its deed; this could mean an additional shortfall of up to 2.5 million barrels a day. It is *possible,* but unlikely, that at least some non-Arab oil exporters would also reduce output in sympathy with a fellow OPEC member.

Nevertheless, the problem is manageable. Ninety-day stocks are being built up in all the industrialized countries, and oil shipped on D+8 will still be at sea for many destinations on D+90. By then, if not sooner, the smoke will have thoroughly cleared, and OPEC members will be faced with U.S. control of Saudi oil reserves, which, if worked to the full, could put all of them out of business for fifteen years. At this stage, reason is likely to prevail, and production is likely to be restored. But if the risk seems high, something can be done to reduce it: in Kuwait, Abu Dhabi, Dubai, and Qatar there is a production capacity of 6.6 million barrels a day, a good deal of it now shut in for "conservation" (read price-rigging). If Arab or even non-Arab oil solidarity strikes are in the cards, battalion-sized detachments can be sent to seize much of this capacity for the immediate purpose of short-term supply (rather than reserves for price leverage). The seizure of Kuwaiti capacity, however, would require a division and entail a serious strategic problem, of which more below.

Next, the minor tactics. One or perhaps two Saudi brigades and some U.S.-made Hawk missile batteries will be in the target area. Prior to getting there, the airlifted elements would have to cross 975 miles of unfriendly airspace in large, vulnerable transports. But opposition would be thin. The twenty-four-jet Jordanian air force can be grounded, and the Israel-Dhahran air route would be totally out of range for Egyptian, Iraqi, or Syrian fighters—an important consideration, these being very large, if poorly trained, air forces. In the October war, the Is-

"Many say we need not do it, since we can afford to pay the economic price of extortion. But the moral, political, and social price is too high."

raelis scored fifty dogfight kills for every one of their own shot down. But relative superiority is not enough: not a single transport must be exposed to risk.

Hence ample fighter cover will be needed against the six fighter squadrons of the Saudis, and any chance arrival of Egyptians, Jordanians, Iraqis, or Syrians. This will require perhaps six squadrons of air-refueled Phantoms and tankers out of Israel, readily supported, if necessary, by more Phantoms, this time Israeli (flying outer patrol tracks, to avoid misidentification and fratricide). Finally, for the Hawk missile batteries so shortsightedly supplied, there are different remedies, and prudence demands that all be used: active and passive electronic countermeasures. (Those who designed the missiles are not unfamiliar with their weak points.)

On the ground, the tactics must stress mobility and avoidance. In the first stages, every available truck—and Cadillac—found on the ground must be commandeered to give mobility. Otherwise troops that had crossed thousands of miles by air would be totally immobile on the ground. Speed is of the essence to secure the oil fields, as well as U.S. civilians for rapid evacuations. Lastly, avoidance: Saudi troops, if prudent, will avoid combat, and they must not be needlessly provoked. Very quickly it will become entirely obvious that the oil fields alone are to be occupied in one small corner of Saudi Arabia. Between them and most of the inhabited areas of the country, there are vast distances (except for Riyadh, only 400 miles away by road) and broad deserts, easily turned into buffer zones by air interdiction, here effective and totally unhampered since there are neither trees nor village targets: any military traffic would simply be stopped by air patrols.

NOW FOR THE REAL PROBLEMS, the strategic. What options are open to the Russians? They could not hope to anticipate the first American move. Nor is it imaginable that the ruling Saudis would invite their presence: the Saudis know that with Americans some compromise might well be possible, but with Russians the Saudi leadership, fiercely Islamic and fiercely anti-Communist, would not last long. An invitation to the Russians would merely ensure the overthrow of the ruling family. And that is not a figure of speech. It would mean defenestration and mutilation by the mob, as when the Hashemites of Iraq were overthrown. If the Russians landed forces in Iraq, Russian policy would thereafter be captive to Iraqi hyperactivism, or at least the landed troops would be. Still, the move would have a ready payoff. Even if their troops did nothing, the Russians would score a major political victory, since they could then claim to have deterred an imperialist attack on Iraq—an oil producer like Saudi Arabia, but one whose leaders (it could then be said) had been prudent enough to seek the friendship of the U.S.S.R and to sign a treaty of mutual defense.

If still more reckless, the Russians could encourage and support an Iraqi move south into Kuwait. This would deprive the West of Kuwait's 2.8 million barrels of oil a day, a serious loss if only in the short term. It would also make Iraq, Russia's chosen client, a more important client. But it would risk Iraqi-American armed clashes, entailing the further risk of direct U.S.-Soviet conflict.

Direct Russian counterintervention need barely be considered. The rules of nuclear parity are no mere paper rules to be changed at will. They reflect the harsh and looming danger of annihilation. Americans may open fire on Saudis, and Russians may open fire on Czechs with near-impunity; at a much higher level of risk, each side can attack the clients of the other. If Iraq were attacked, for example, the Russians would be forced to react because there is a public Russian commitment to Iraqi defense, both in policy and on paper—the Treaty of Friendship and Cooperation of April 1972. But for the Russians to counterintervene directly, by blocking American forces or opening fire on them, is another matter altogether. Neither side could afford to lose the local battle, and the potential loser would then have to transform it into a regional war; neither side can afford to lose a regional war, and the potential loser would have to use tactical nuclear weapons—beyond that one need not go.

Some suggest that the Russians could use their naval forces for "interposition." This notion is fanciful. The U.S. Navy would send at least four aircraft carriers, twenty frigates and destroyers, and ten nuclear submarines into the area. Russian mining could only serve as a delaying tactic. Russian warships could not physically block the Strait of Hormuz at the entrance to the gulf. To prevent passage, they would have to shoot, and shooting at American warships would mean jumping on the escalator to destruction.

The essence of the Russian question is not technical but political. Before one considers the balance of superpower forces in place, one must consider the balance of interests between Americans and Russians. Under conditions of nuclear parity, it is primarily "resolve" that settles the issue, and resolve is not a matter of machismo but a reflection of the true value to each party of the interests in dispute. The control of Saudi oil is a vital national and all-Western interest for the United States. By contrast, its denial would merely be a desirable bonus for the Soviet Union. Hence the risks that each side can accept, and must anticipate that the other side will accept, are not evenly weighted. To seize the oil the United States must seize some tracts of desert. To deny the oil, the Russians must kill American troops. This, neither the collection of tired bureaucrats in the Kremlin (who agonized over the low-risk Czech invasion for months) nor even another Stalin could possibly do, for escalation to catastrophe could follow. As against this, there are the rewards of inaction, already high: even if the Russians do nothing at all, their prestige and influence would immediately increase all over the Middle East, and beyond. Let the Russians have the influence, and let us have the oil.

So far no mention of Iran. With a large army of 175,000 men, well-equipped and heavy in tanks even if poorly trained and worse led, with an air force that includes 100 Phantoms, with more coming, and with a navy already not insignificant, Iran could in theory do a great deal to oppose intervention. The risk must not be discounted, but there are offsetting factors. At a minor level, there is the fact that Iranian aircraft fly by the grace of American technicians serving on contract, most of whom could depart on vacation just before D day. On a high political plane, there is another factor. Even though a sharp cut in oil prices would seriously damage the Shah's dreams of grandeur, Iran and the Shah would nevertheless remain dependent on the United States. With a common border to the north, with its client Iraq to the west and its semiclient Afghanistan to the east, the Soviet Union already embraces Iran far too closely for comfort. Reluctantly and privately, the Shah would most probably accept an American action he cannot prevent, for the alternative would be war with Iran's only protector.

One way to cope with the Iranian problem is to combine it with the planning dilemma of Kuwait. On the one hand, it might be wise to send a composite Marine/armor division (after wave two, D+3) into Kuwait to deter Iraqi intervention. But if the Iraqis descended across Kuwait toward the main zone of operations some 300 miles to the south, real fighting could take place, entailing risk of Russian involvement in support of its junior partner. Also, the acquisition of Kuwaiti oil capacity—even if damaged—would alleviate the short-term supply problem. On the other hand, if Kuwait is left unoccupied, a buffer zone, it will be easier to avoid clashes with Iraqis and reduce the risk of direct conflict with Russians. There is also a severe tactical problem: while the Kuwaiti army of 10,200 men can be brushed aside, Kuwait does contain more than a million people in a small area. By contrast, the population in the main zone of operations, even if extended to Abu Dhabi, Dubai, and Qatar, amounts to less than 300,000, widely scattered.

Why not then discreetly ask whether the Iranians might be willing to "protect" Kuwait —and, incidentally, appropriate their oil. This oil would largely offset Iranians' loss of revenue on their own [illegible]. To be sure, if the Iranians move into Kuwait the Russians may be tempted to invade northern Iran, but this would be a high-risk operation for the Russians, since Iran is already a protected area of the other superpower, the U.S. Still, this is a danger that cannot be dismissed, and that would be reduced by Iranian tranquility before, during, and after the occupation.

Afterward

NEXT, THE PROBLEM OF management, that is, politics. Clearly, the operation would not be conducted to serve the interests of ARAMCO, which is American-owned but has long been subservient to the Saudis. To maximize output and avoid commercial entanglement, we should throw open the oil fields to any and every operating company, American or not, large or small, so long as it is ready to come in quickly, repair, and lift the oil, fast. Each company would receive the acreage it could begin to work immediately. Each would be compensated at cost plus a generous fee for every barrel lifted, every well dug, and every facility repaired. Assuming maximum inefficiency and a great deal of petty graft, the oil would cost an average 30 cents per barrel—in other words, less than 3 percent of present prices.

But the oil should not be sold at cost, for many reasons. First, all measures of energy substitution being taken worldwide would be discouraged, and eventually stopped. Second, to reach a compromise with the uninvaded members of OPEC, some reasonable revenues must be left to them in bargaining for their early resumption of full output (the short-term supply problem again), in exchange for a guarantee that Saudi oil will not be used to bring the price down to near nullity. Finally, oil cannot be sold at cost because there is a wider political purpose to be pursued.

If oil raised at an average cost of 30 cents were sold, at say, $2 per barrel, each day of output would at first generate profits of $14 million. When output reached the OPEC-compromise level, profits could rise to as much as $30 million per day. Now these profits should not be appropriated by the world's richest country, whose compensation, in secure supplies at low cost, would already be ample. Instead, the profits should be handed out to the poor on conditions. An International Oil and Aid Organization would be created to lift the oil, allocate funds for investment, give some money for the Saudis et al. to pay for essential imports, and then distribute the rest of the money to those of *its members* whose annual per capita income is less than, say $500. In other words, any poor country in the world would immediately be entitled to a share in the oil profits *if* it joined the IOAO, and so politically endorsed the *fait accompli.*

This would provide the poor with a vastly greater flow of aid funds than all current aid programs combined—in fact, almost five times as much, once full output is reached, even if all eligible recipients join. In view of what was said earlier about the regimes of the Third World, it can be safely assumed that the Indian government for one would prefer to let millions of its people starve rather than associate itself with the IOAO. But already for Bangladesh matters are less certain: throughout 1974, this poorest of the poor nations, which is fervently Muslim to boot, failed to extract more than $100 million from all the Arab oil producers combined —truly a case of crumbs to the starving. The IOAO, with $10 billion or so eventually available to it, would do much better than that—and all for a symbolic association.

The IOAO would obviously use similar tactics with the oil workers. The Saudi regime, not exactly the most progressive in the world, did not allow ARAMCO to pay its workers lavishly, lest sheiks lose their low-paid servants. The IOAO would not have to defer to the Saudi version of the housemaid problem; it could announce a 50 percent wage increase.

Will the world condemn America? Some of it will, and will mean it. Others, including some Europeans and unfortunate Japanese, will condemn, cry, and partake of lower oil prices with a sigh of relief. Certainly the image of the Soviet Union will improve in contrast and the United States will lose "influence and prestige in the Third World." But what influence? What prestige? And what would the spectacle of American acquiescence in the political blackmail of the kings and dictators of Araby do to American prestige? The weak respect power more than do the strong, who know its limitations.

The crucial factor, however, is domestic opinion. First, there is the why in the *raison d'état*. The American people instinctively felt that in Indochina the national interest was not at stake and only the commitment itself made for further commitment. Not so here. All would understand, all those affected by inflation and unemployment, that is.

Second, performance. All agree that had the U.S. done well *militarily* in Vietnam, public opposition would have been limited to the tiny minority of those who oppose war, or their own country, in all circumstances. The first group is certainly entitled to its elevated conceptions, but the vast majority of the people think otherwise. A neat and rapid operation *is* possible in Saudi Arabia owing to the terrain and the men, mostly absent. Moreover, the four required divisions are fit, trained, well-equipped, and battle-ready. On that score we need have no anxieties.

Third, duration. Americans were wearied by a war that was not only unsuccessful but also far too long. This operation will not be over in a day. It will last for years, though surely not until the last drop of Saudi oil is exhausted. After all, the American-controlled dis-tribution office of the IOAO would allocate oil to consumers at the new low prices, but demand that they finance serious substitution efforts with some appropriate share of the vast savings on cheaper oil. Given rigid controls, diplomatic pressure, and their own caution, strong substitution policies are sure to follow in Europe, Japan, and wherever possible. And it is much easier to build nuclear power stations, hot rock generators, solar arrays, and windmills when the balance of payments is no longer in deficit, inflation has been curbed, and recession a memory—all of which $2 oil could ensure.

Hence an occupation of ten years and probably much less would suffice. Once the dust of the invasion settled, once every evidence of *permanent* intent became apparent, the remaining members of OPEC would see reason, and accept a binding commitment to maintain supplies at agreed prices in exchange for American withdrawal. From their point of view, the great danger is that Saudi oil could be used to bring the price down not to $2 but to $1.50, then $1.40, then $1.30 . . . and so on.

In a sober assessment, mindful of all the political costs and all the strategic risks, it can be done. It must be done. For if we do not do it, Project Independence will in fact be Project Isolation, with a somewhat impoverished America surrounded by a world turned into a slum. Almost everywhere, this would be an authoritarian slum, the product of utter hopelessness among the poor and mass unemployment among the former rich, all of us being forced to finance the executive jets of the sheiks and the fighter bombers of the dictators.

If we will not do it, future generations will see through our protestations of moral restraint and recognize craven passivity. Many of those who took the United States into the jungles of Vietnam to look for the national interest are now saying that we need not do it, since we can comply with political blackmail (by blackmailing Israel in turn), and since we can afford to pay the economic extortion. True, we can do both. But the price—moral, political, and social—would be far too high. We would no longer be able to look each other in the face. Many who saw prudence and reason in bombing an ally of the Soviet Union and even blockading its ports, are now saying that we cannot do it, for behind the Arabs stand the Russians, and the Russians would not let us. That, it has been argued, is false. And since no one denies that the dependence of the Western world on Arab oil is absolute, if *their* analysis were correct, it would mean that we are living at the mercy of the Arabs, that is to say, as Prof. Robert W. Tucker has pointed out, of the Russians. And if *that* is true, we no longer need a foreign policy establishment, and we might as well disband the armed forces unless we double or triple their strength: there is no sense in paying $85 billion a year for impotence. □

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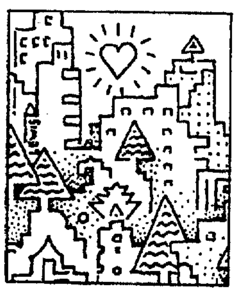
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How the Arabs Bluffed Us on Oil And How We Can Stop Them From Bluffing Us Again

By Leonard Mosley

"...What astounded the Arabs was not the strength of the oil embargo but the weakness of the oil-consuming nations..."

If a fifth Israeli-Arab war breaks out this year in the Middle East, will the Arab nations start another oil boycott of the Western world—and really ruin us this time? Most governments in Europe and quite a few Arabists in the State Department think they will. As for the lobbyists of the major oil companies, they prophesy downfall and degradation for the West if the U.S. government fails to bear down hard and fast on the Israelis and force them to accept the Arab line.

But since the Israelis think that it is not even a baited hook that they are being asked to swallow, it looks as if they are going to refuse to be pressured. And what then? War seems inevitable —plus an oil boycott of the West which, the Arabs threaten, will be total this time and bring us all whimpering to our knees.

"We would hate to impose another embargo," says Prince Fahd, Saudi Arabia's minister of the interior and brother of King Faisal. "But in a war, when you feel you are in danger of dying, you may do anything. If war breaks out again, it will be not only the Arabs and Israelis who are damaged, but the world as a whole."

Maybe. But before the Western world starts throwing in the towel before the first blow has landed, it might be wise to look at some of the facts about the Arab oil situation that don't usually get talked about where lobbyists gather to propagandize governments.

First, let us get it clear about what happened sixteen months ago when the Arabs embargoed oil to the West in the aftermath of the Yom Kippur war. I am among those who believe that the Western world at that time fell for the biggest and most expensive bluff in history—and that no one was more surprised when it succeeded than the Arabs who made the play.

The major oil companies had (and still have) their own selfish reasons for keeping quiet about it, but what startled the oil people and astounded the Arabs was not the strength of the oil embargo as an instrument of pressure and persuasion, but the weakness of the oil-consuming nations the moment it was brandished over their heads.

Members of the Organization of Arab Petroleum Exporting Countries (O.A.P.E.C.) announced that they were cutting down their oil production as a punishment to the West for its overt or covert support of, or neutral attitude toward, Israel. But at the same time, non-Arab countries, particularly Iran, stepped up their output to compensate. As a result, there was never more than a 10 per cent diminution in world oil output during the embargo.

Nevertheless, panic buttons were pushed in Europe and Japan. Who first started the panic is one of those questions that can't be answered with certainty until all the documentation is available, and some of it is in the hands of the major oil companies, all of whom keep shredding machines on hand for the disposal of evidence.

The majors have virtuously hinted that during the Yom Kippur war, they actually raced to the rescue of the Europeans, particularly the Netherlands. The Dutch (like the Americans) were put under a total embargo by the Arabs during the crisis. The oil companies say they circumvented the full effect of this by rearranging their world delivery program and getting fuel to Holland anyway. But at the same time, whether by accident or design, they also fouled up the distribution system, and chaos resulted. The oil companies found themselves in the happy position of having governments pleading with them to get needed supplies, and the oil companies didn't always help those governments out. So the governments panicked.

Yet the Arabs were using a ploy that was pure bluff and blackmail. Their customers, as it turned out, possessed quite sufficient stocks to tide them over for the critical winter of the embargo, and had the Western governments taken a stand and refused to accept particularized boycotts (like the ones against the United States and Holland) and thus demonstrated their unity, the less arrogantly self-confident Arabs now admit that their tactics would have failed. They don't say it publicly, of course, but in talks with their friends and with favored correspondents at O.A.P.E.C. sessions, one or two oil ministers have confessed that they "never believed the oil-consuming countries would cave in so easily." They expected resistance that would have produced a conference and a compromise.

But instead, the bluff succeeded—beyond the Arabs' wildest imaginings. You can hardly blame them for convincing themselves that the West was no more than a bunch of paper tigers who would henceforth come crawling every time the Arabs rolled their eyeballs.

And so it worked out. The oil-producing countries met and jacked up the price of oil beyond all reason, and no government dared to complain. Europe and Japan promised to be nice to the Arabs and nasty to the Israelis in the future. Yasir Arafat, head of the Palestine Liberation Organization, was welcomed at the United Nations, justified, and embraced. Henry Kissinger and

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"...The Arabs won't close their wells except in the event of an invasion. The consequences would be too great–for them . . ."

some of his friends may have thought that this was going a bit too far, but for pro-Arabist generals in the Pentagon and major oil-company lobbies, Arafat's U.N. "success" was a catalyst. A large number of brass hats, almost certainly including the chairman of the joint chiefs, had thought for some time that America had been loading the wrong cannons in the Middle East, and the oil companies had always, for purely selfish reasons, been sure of it. This seemed the moment for the Pentagon to start prodding the government to make changes. Psychologically, it couldn't have been better for them. State was reeling over the way the Arab summit had gone in Morocco—when the Arab leaders, despite Kissinger's pleas for moderation, threw their turbans over the mosque and put their whole political weight and money behind the Palestinians. This, combined with Arafat's triumph, made it easy to convince nervous State Department officials that maybe the time was coming to get into step with the rest of the world, and if necessary perform an Arabesque in order to do so. State Department officials, while insisting on their friendly support for Israel, let it be known that, as *Time* magazine put it, "marked progress toward peace on terms acceptable to the Arabs is absolutely essential. . . ."

Essential to whom? And what will happen if the Arabs don't get the complete Israeli capitulation which they are now demanding?

"In that case," says a Saudi Arabian spokesman, "the West will have to face another oil embargo. But this one will be worse, because it will be a total embargo this time."

Now before you cringe back in horror before this direful threat, and pictures flash before your eyes of a United States run down to a standstill through lack of oil, an inert Europe moiling in its own tears, Japan flat on its face (what's left of it), let me rinse out of your minds this brainwash you've been getting about a total Arab oil boycott.

It isn't going to happen. Not unless the U.S. government is foolish enough to carry out Henry Kissinger's threat and try to occupy the Persian Gulf oil fields. The moment marines try to land in the Gulf and paratroopers drop around the oil fields of Arabia, a lot of those fields are certainly going to be blown up. It would take quite a few months to get them working again, in the face of a hostile population (which is, however, in most places quite thin on the ground).

But the Arabs, no matter what their threats, are not going to close down their wells except in the event of an invasion. They know that the consequences would be too great—not for us, but for them.

Not long after the end of the Yom Kippur war, the management of Aramco (the Arabian American Oil Company) in Dhahran, Saudi Arabia, received a message from Ahmed Zaki Yamani, the Saudi oil minister. He asked them to prepare at once a feasibility study of the cost and consequences of a total shutdown of the Saudi oil fields. He got his report shortly afterward and took it around to King Faisal in his modest palace on the Red Sea at Jiddah. According to the accounts which were circulated later in Vienna, where the oil-exporting countries have their official headquarters, the dialogue went along these lines:

"Summarize it for me," said the king, whose internal ailments do not permit him to sit around too long. "Could we shut down all our fields if necessary?"

"In theory, yes, your Majesty," replied Yamani, and then went on smoothly, "in practice, there would be certain difficulties."

For one thing, he explained, it would be monstrously expensive. If Arabia's oil wells are not to be permanently damaged and the whole nature of the fields affected by a shutdown, special precautions would have to be taken about care and maintenance. Not only would all oil revenues be lost during

the period of shutdown, but it would also cost ten times as much to keep the fields closed as it does to keep the oil flowing. And even so, some of the fields might be fundamentally damaged.

King Faisal was prepared to face that prospect, so long as the other Arab oil-producing countries went along with the total closure.

"By 1975 we will have money enough to pay all expenses, stay prosperous, and wait until the Western democracies come begging for oil. We will be like the camel and live on our fat."

"Yes, your Majesty," said Yamani, "but perhaps it might not be wise to wait too long." Otherwise, certain "eventualities" might face the Arabian Gulf countries, he went on.

"Do I need to remind your Majesty," Yamani explained, "that, quite apart from the revenue side, states like Kuwait and ourselves cannot survive without the oil — or rather, the gas produced in association with oil—from which is generated the power to produce our water and electricity?"

He went on to point out, as Aramco's report made clear, that without the surplus gas which the company channels from its fields into the Saudi cities along the Gulf, the whole of the Eastern Province would grind to a much more critical halt than any facing the Western world. Not only would there be no power to run factories, lighting systems, oil-field-maintenance plants, and domestic supplies, but the desalination plants would have to close down and Dammam, Dhahran, Al Khubar, Oqair, and parts of Riyadh, the capital, would be out of water.

Yamani did not have to point out to the king that Kuwait would be in even worse straits, for literally every lamp is lit, every wheel turned, every air conditioner powered, and every drop of water produced by gas channeled from her oil fields.

Since that report was written (the State Department should ask for a copy, by the way; when I was in Washington late last year I couldn't find anyone who had seen it), the Gulf oil states have taken some steps to remedy the situation. Kuwait nowadays not only takes gas directly from the oil fields and imposes heavy penalties on companies which are caught flaring off any surplus, but is also building up a stock of L.N.G. (liquid natural gas) which is easier to store. But even so it is unlikely that they will be able to squirrel away enough to keep them going over a shutdown of more than a week or two. Yamani has signed a contract with the Japanese, who now send back fresh water in the empty tankers returning from Yokohama. But the Saudis can store only enough for a limited supply and would have to abandon most of their irrigation schemes—perhaps even care and maintenance of the oil fields.

So forget about a total embargo. It's another bluff, and this one will never happen. King Faisal knows that the chaos produced by a loss of electric power and water would give the militants inside and around his country just the opportunity they are waiting for to move in and unseat him. His vast wealth and his arrogant domination of the West have helped him paper over the cracks in his country. But the cracks are there, and there are dissidents in the woodwork. Faisal allows no votes in his kingdom, never consults the people, and swiftly suppresses the slightest hint of opposition. But the opposition is there. It seethes beneath the surface of life in Jiddah, Riyadh, and the Gulf towns, where young men fret under a rigidly theocratic regime that is authoritarian, compartmentalized, and privileged.

And not far away is an even more dangerous threat to the stability of the regime. Just across the Saudi Arabian frontier in the Dhofar area of southern Oman, P.F.L.O.A.G. is knocking


"... Before you cringe, rinse out of your minds this brainwash about a total Arab oil boycott. It isn't going to happen ..."

at the door of all the sheikdoms of the Persian Gulf, but loudest on Faisal's door. P.F.L.O.A.G. stands for the Popular Front for the Liberation of the Occupied Arabian Gulf, and the "occupiers" these Arab militants are fighting are not Europeans, Japanese, or American oilmen but the kings, sheiks, and emirs who rule in the Gulf. They are fighting for a Maoist-Communist Gulf and they are backed by Russian armaments and trained by veteran Chinese guerrillas. For the moment they are contained, but they are by no means beaten. It would be tempting fate, and P.F.L.O.A.G., if Faisal let the lights go out and the faucets run dry.

There is, of course, nothing to stop the Arabian oil producers from once more *lowering* rather than stopping oil production in order to force the Western world to toe the Arab line. But will it work this time? It needn't do so, and there are ways and means of making sure that it doesn't.

When oil was desperately short during World War II, the United States kept its plants operating and its multimillion civilian and military wheels rolling by a system of energy control never equaled before or since.

In December, 1942, at one of the grimmest moments of the war, an authority was organized in Washington called the Petroleum Administration for War (P.A.W.), and together with another organization called the Petroleum Industry War Council (P.I.W.C.) it controlled not only all domestic oil supplies inside the United States but also all military supplies. At the same time, it worked in the closest liaison with its allies abroad.

"It worked so well and made such good and economic use of what oil supplies we had available," said Howard Page, a former vice-president of Standard Oil of New Jersey, "that there were plenty of far-seeing characters in the industry who wanted to keep it going once the war was over." P.A.W. and P.I.W.C. were manned by energy experts from both government and the petroleum industry, and they worked together with great success to increase the mileage the West got out of every gallon of gas that was going.

Some energy experts believe that if that wartime authority were revived today it would cut out so much waste, find so many new sources of energy, and provide for so many possible contingencies that the United States, Japan, and Western Europe could not only face up to any future Arab cutback in oil production, but could bring pressure themselves on the Gulf producers. Industry experts estimate that a properly coordinated body with full cooperation from the major oil companies, plus Britain, Germany, and Holland, could cut the West's consumption within eighteen months by 6.5 million barrels a day, which would exert enough pressure to break the united front of O.A.P.E.C. and force the reduction in barrel prices that the world needs if it is to get back to normal.

It couldn't be a better time for bringing P.A.W. back to life. Thanks to a serious world-wide recession caused mainly by high oil prices, demand for crude has already diminished so much that tank farms along the Gulf are brimming with unsold oil, tanker owners are going bankrupt because they can't charter out their ships, and oil countries are already contemplating cutbacks without waiting for an Israeli war and an embargo.

A year from now, the O.A.P.E.C. countries will have garnered so much money into their accounts, even though barrel sales are down, and that money could be earning so much revenue overseas, that there won't be a hope in hell of bringing prices down. The oil countries will be rich enough, all of them, to say: "Take it or leave it."

But for the moment only *some* of them are yet rich enough to be invulnerable. Saudi Arabia is all right, and so are Abu Dhabi and Kuwait, because they have only about 9 million people between them and they control a large slice of all the money in the world. But Iran needs all the cash it can lay its hands on. Even more so do Iraq, Algeria, Nigeria, and Indonesia. They all have large populations and development programs that are swallowing up every dime they collect.

If a combined government-petroleum industry peacetime version of P.A.W. were to get down to work immediately and organize the Western world's energy resources *and the way to use them without waste*, happy days would be here again. Because several of the oil countries, confronted by a serious drop in oil purchases, would have to go out and actually *sell* their oil. Once we are back to a buyers' market, the crisis would be over. For this time, anyway.

There's a snag, though. It has to be admitted that government control of energy in World War II brought gas rationing with it and a widespread black market in fuel, and who the hell wants to see that again?

Yes, but during World War II the United States and its allies were fighting a physical war during which they had not only to keep factories and wheels turning at home, but also to find fuel for thousands of planes, tanks, trucks, and other transport—much of it overseas, which meant that ships had to be used to take it there and protect it on the way. Experts estimate that in peacetime this shouldn't be necessary.

I don't believe that a tight, efficiently run scheme would need rationing to keep it going, though if that did become necessary, I still think it would be preferable to putting the United States and the Western world in permanent hock to the oil producers and under continual threat of boycott and blackmail.

To my mind, a worse snag is the position of the oil companies. How are you going to persuade the oil companies, especially the major companies, to join a reconstituted P.A.W.? During World War II you could appeal to the patriotism of Standard Oil of New Jersey, Mobil, Texaco, and Standard Oil of California, and if that didn't work you could tell 'em.

But times have changed and companies like Aramco have divided loyalties, and you can't tell 'em because other influences closer to their center of operations are telling 'em louder.

On whose side would the major U.S. oil interests overseas be in the event of America's being involved in a Middle East war? Wartime aside, the majors have been accustomed to making their own way, and their own policies, in the Middle East—except when Arab potentates give them orders. And the U.S. government remains the only top nation in the world that doesn't have an interest in its own oil companies. Even so, it's still within the province of Congress and the president to persuade the majors to follow national guidance inside the United States, and to pressure its top directors into joining some sort of revived P.A.W. that would coordinate and control the nation's energy resources. The sooner they do so, the better.

The time has never been riper for a unified Western showdown with the Arabs. With the West's oil resources under its control and immediate tactics and future strategy laid out with its allies—the braver ones, anyway—America has a more than even chance of calling the next Arab bluff. And even of ensuring that there is a just settlement in the Middle East without resort to another Israeli-Arab war. ■

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The Price of Oil: A Political Time Bomb

Willy Linder

Written in December, this article has in some respects been overtaken by subsequent events. But its basic premises still remain valid and provide much food for thought. — The Editor.

Something more than a year has now passed since the Arab countries, meeting in Kuwait, decided to use the "oil weapon" in an effort to gain their political objectives. At that time the oil weapon had two spheres of effectiveness: a quantitative policy (production cutbacks and embargo) and a price policy. The quantitative policy, which is what the general public initially tended to identify most with the energy crisis, proved to be of relatively brief duration. This was largely because, although it had a powerful shock effect, it turned out to be much less specific and precise than had been anticipated. Naturally this does not mean that, under certain political circumstances, the Opec countries may not again be tempted to apply such a restrictive policy.

At present, however, the supply situation appears secure. This has nourished a growing view that the crisis has become substantially less acute. But great caution should be exercised in entertaining such an idea. The Opec cartel's price policy is inducing redistribution processes of vast extent. The full effects of these forces will come to be felt in 1975 and 1976, especially in the form of disequilibria in the balance of payments that cannot be adequately dealt with by the traditional means of balance-of-payments policy tailored to the workings of the free market economy. Thus the process of redistribution will also induce areas of political tension, and there is no foretelling now just how such tensions may be discharged. For this reason Dr. O. Emminger, Vice President of West Germany's Bundesbank, recently compared the present form of the oil crisis to a time bomb which has yet to be defused.

These factors of uncertainty are further accentuated when seen against the background of the extremely unstable international economic situation at present, which is marked by inflation and recessionary phenomena. It is hardly exaggerated to speak of an explosive mixture of problems. Some knowledgeable observers even go so far as to divide the history of the world economy into "before" and "after" epochs, with the shock of the "new oil policy" marking the turning point.

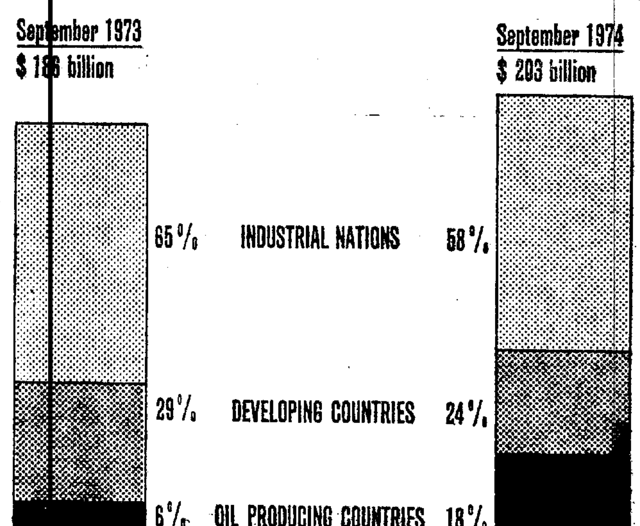
To fully comprehend this viewpoint it is necessary to graphically grasp the extent of the redistribution processes triggered by a four-fold increase in the price of oil in the course of a single year. Despite its inherent weaknesses, a depiction of the present and future situation by means of a mainly statistical extrapolation of trends may be regarded as legitimate, because such a method illustrates with dramatic clarity the dimensions of the problems and the stress being placed on the mechanisms of economic adjustment.

To begin with, it should be noted that the income of the oil producing countries in 1973 was about $25 billion; in 1974 the figure was approximately $80 billion and, because a time lag exists between oil deliveries and payments, at present price levels the total will rise to $100-105 billion in the years immediately ahead. Even if it is optimistically assumed that the oil producing nations will rapidly increase their imports, so that part of these oil revenues will flow back to the industrial nations, in each of the coming two years the oil producers will still register a foreign currency surplus of some $50 billion, which the oil importing countries will somehow have to equalize in their payments balances.

These figures alone make it evident that we are dealing with a problem of completely new dimensions. The disequilibria in the payments balances which resulted in some severe monetary crises in past years were modest by comparison.

The problem of international payments balances thus appears in a completely new light. This is especially the case since the return flow of petrodollars via increased imports by the oil producers will be determined not by the monetary needs of the industrialized, oil importing countries but purely by their ability to make favorable business arrangements with the oil producing states. For this reason it may be assumed that the world is heading for a period of balance of payments upsets which, unless new balancing techniques are employed to keep them within reasonable limits, will inevitably prove to be virulent sources of international economic instability.

The intensification of world economic tensions will seriously affect not only those industrial nations



Distribution of world monetary reserves

not in the forefront of international competition, but most particularly those developing countries which, because of their lack of domestic raw materials, have virtually no chance of compensating their foreign trade imbalances by intensifying their exports. In recent years those developing countries which do not produce oil managed to significantly expand their monetary reserves, globally speaking; this was because their respectably increased volume of exports was not nullified by an equivalent rise in their imports. According to the German Institute for Economic Research (Weekly Report 46/74), from the end of 1970 to the end of 1973 their holdings in gold, foreign currency, IMF special drawing rights and IMF reserve credits rose from $18.3 billion to $26,4 billion.

Although this cushion of monetary reserves has not yet been substantially reduced, thanks to the boom on the raw materials markets, it is evident that there is now a rapid deterioration of the relationship of those reserves to those countries' import-induced need for foreign exchange. The German Institute for Economic Research has estimated that these countries registered a foreign trade deficit of $45-50 billion in 1974 — a level which could not be rectified even by a massive increase of aid from the industrialized nations.

The only visible solution would be for the oil producing nations to grant massive financial assistance to the other countries of the Third World, channeling some of their surplus income to them in the form of direct investments or loans. But, even when they are made via multinational development agencies, loans result in greater indebtedness on the part of these poorer nations — and in any specific case there is no telling how such growing debts can ever be repaid. At the same time direct investments will be able to play only a subordinate role in this context.

This raises the very real danger of an overindebtedness of some countries — and not necessarily only developing states — and, at the end of a lengthy process, the specter of moratoria on unrepayable debts. The possibility of a regression to trade restrictions and currency controls must also be built into the overall picture, since such moves might offer the last hope of reducing balance of payments deficits. If these perspectives are followed to their logical ends, it becomes evident that the international trade system, which in the course of the postwar era has been kept on a consistently liberal path only with great difficulty, is threatened with severe disruption.

The fact that the oil producing countries, even those with large populations and ambitious development plans, will not be able to convert their entire influx of petrodollars to imports, means a redistribution of monetary reserves as well as an enormous investment pressure emanating from these funds. A glance at the relevant figures shows that the redistribution of monetary reserves already made considerable progress in 1974. Within a year the oil producing countries expanded their share of world reserves from 6% to 18%, with a group of only eight oil producers (Saudi Arabia, Iran, Venezuela, Nigeria, Libya, Iraq, Algeria and Kuwait) registering a total of $37 billion at the end of last September.

These funds are crying to be invested. Two figures relevant to this matter have already made the rounds of the world press: According to a rather conservative estimate by the OECD the monetary reserves and foreign credits of the Opec states will reach $300 billion toward the end of this decade, while a more pessimistic projection by the World Bank places the figure at $600 billion. In any event the sums involved are enormous, reflecting an unprecedentedly vast redistribution of wealth compressed into a very short span of time. (The problems of indebtedness and debt repayment, already alluded to, are of course also part of the picture.) And it is inconceivable that this process could take place without political repercussions.

The more or less reliable figures now available on the investment policies of the oil producing countries to date indicate that a relatively large portion of their investments has gone to the international money markets. Dr. Emminger of the Bundesbank estimates that, up to the middle of last August, $10 to 13 billion had been placed there; at that time the oil producers had a foreign exchange surplus of some $28 billion. The remainder of that total was divided between investments in individual countries, support for international organizations (the World Bank and IMF) and direct financing assistance to developing nations. These figures show that those countries with weak payments balances benefited only to a slight degree from the return flow of petrodollars, whether through the import activities of the oil producers or their investment policies.

It is here that the question of "recycling" arises — the term used to designate the channeling of the oil producers' dollar surpluses to those countries with weak payments balances. It is an obvious thought that the excess revenues of the oil-rich countries could be used by the poorer nations to finance the payments deficits arising from the increased price of their oil imports. But it is also immediately evident that recycling can at best be only a short-term transitional device, since it very quickly results in greatly magnified indebtedness. As the head of the U.S. Federal Reserve Board has pointed out, "What recycling really means is piling of debts on top of debts."

It has already become clear that the Euromarkets, serving as transit stations for petrodollars, have reached the upper limits of their absorptive capacity. This is because the banks active on those markets are confronted with growing risks of short-term recall of funds. The financing of payments deficits caused by the rising price of oil imports would require a willingness of the surplus countries to make long-term investments in the deficit nations, rather than placing large portions of their surplus dollars on the short-term money market. There are already several indications that the banks active on the Euromarkets are no longer unreservedly willing to accept short-term funds and to permit unlimited escalation of the dangers inherent in a policy of financing long-term loans with short-term money. The creation of a credit pyramid, which becomes increasingly unstable as it grows larger, harbors grave dangers.

At any rate there is no doubt today that the commercial banks will hardly be capable of handling the growing flood of petrodollars. Thus it is hardly surprising to note an increasing chorus of demands for national or supra-national recycling institutions and "new international mechanisms" capable of dealing with the challenge now confronting the world monetary system. The present form of recycling, however, merely provides some chance of pursuing a policy aimed at gaining time — time to search for a solution together with the Opec countries, for the creation of a "joint institution." But, in order to be equal to the task facing it, such an institution must have a vast capacity, exceeding in magnitude anything previously known.

Even where the oil producing countries have moved toward a policy of direct investments, new problems are being created. In recent years the Arab oil producers and Iran have demonstrated, in some cases very drastically, how foreign investments can be treated. A combination of national political independence and economic chauvinism has crystallized into a catalogue of arguments which has led those nations directly to a philosophy of nationalization.

Now, however, the worm has begun to turn. Yesterday's rabid advocates of nationalization are faced with the possibility that, if they push their direct investments in the industrialized countries (and where else shall they invest, if they think purely in business terms?), they will be hoist with their own petard. The premise that these new creditor nations must be given investment possibilities if the petrodollars are to flow back into the industrial countries, is essentially correct — but it ignores the fact that such a financial circulatory system also involves a shift in the patterns of ownership, and that such a shift has its own limits which, though difficult to determine, are nevertheless absolute in their effect. This process has only begun. Where will it end?

Finally, recent events have shown that the spectacular restructuring of monetary reserves, and the resulting inclination of the oil producing countries to commit vast sums in foreign currency movements, threaten to disrupt the functional mechanism of floating. The dollar surpluses of the oil producers now constitute a source from which mighty streams of dollars flow through the foreign currency markets, creating instabilities which can be eliminated only through interventionary moves by central banks or controls on capital transactions — in other words, by falling back on protectionist measures. Switzerland was recently forced to institute a relatively "harmless" move of this kind. Should such monetary escapades become more widespread because they seem to be the only possible response to the foreign currency transactions of the oil producing countries, a further disintegration of the international monetary system would be inevitable. And this danger is quite real, since the quantities of foreign exchange at the disposal of the oil producers are steadily increasing at an enormous rate.

The problems only briefly sketched here make it a virtual certainty that, unless viable solutions are found, the world is heading for economic, and thus possibly also political, collapse. In what direction may a solution be sought? The strategy proposed by Henry Kissinger — which involves a program of energy conservation, intensified development of alternate energy sources, a crisis program on the monetary front and aid for the developing countries — obviously can hold out hope of success only if its most important element proves feasible. That element is the creation of politically exploitable solidarity among the oil consuming nations. Such solidarity could prevent the oil producing states from maintaining extreme positions at any cost. But as long as this aim has not been achieved, as long as the major oil consumers continue to practice a bilateralism which endangers the entire economic system, the price of oil will remain a political time bomb.